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Mackay, Clarence Hungerford

Telegraph competition vs. government ownership

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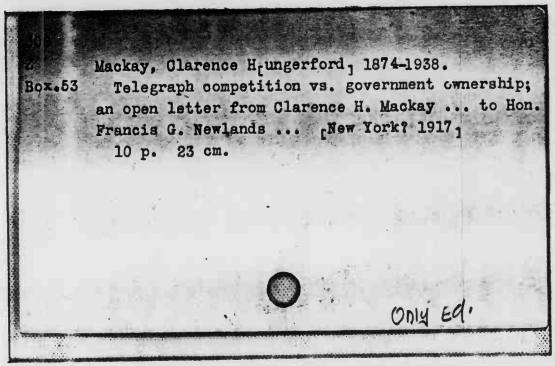
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TELEGRAPH COMPETITION

VS.

GOVERNMENT OWNERSHIP

An Open Letter From Clarence H. Mackay,
President, Postal Telegraph-Cable Company and Commercial Cable Company
To
Hon. Francis G. Newlands,
Chairman, Joint Committee on Interstate Commerce

NEW YORK, February 15, 1917.

Hon. Francis G. Newlands, Chairman, Joint Committee on Interstate Commerce, Washington, D. C.

DEAR SIR:

In compliance with your request, I give the views of the Postal Telegraph-Cable Company and The Commercial Cable Company on the subjects outlined in your printed circular.

The first subject is the "efficiency of the existing system * * * in promoting the public interest." This subject may well be joined with the further subject of "Government ownership," its wisdom or feasibility.

The telegraph service of this country is thoroughly efficient. It is supplied by two strong competing organizations. Government ownership would, of course, mean the elimination of competition because the Government would not allow any one or any corporation to compete with the Government service. The present strenuous competition between the Postal Telegraph-Cable Company and the Western Union Telegraph Company has resulted in giving a higher and better class of service than Government ownership ever could or would be expected to give in this country. This American telegraph service is admittedly far superior to any telegraph service given in Europe, where Government ownership of telegraphs prevails. By the Postal Telegraph-Cable Company a twenty-minute service is given from sender to addressee between all large cities. Ninety-five per cent of its telegraph staff started as messengers or operators and are familiar with every branch of the service.

The American telegraph service is very fast. The ordinary Government telegraph service in Europe is slow and poor. In Europe any one who wishes fast service equal to that of the American telegraph service, must pay three times the regular ordinary rate. The National Association of Public Service and Railroad Commissioners of the various States held in San Francisco, October 12, 1915, received a report of its Committee on Telephone and Telegraph Rates and Service containing the following:

> "As far as this Committee is informed, there seems to be no complaint on the part of the public as to the service and rates of telegraph companies."

Telegraph rates in the United States are cheaper than anywhere else in the world. This is not generally understood, because the pub-

lished rate abroad seems cheap until one ascertains that every word in the address, signature, etc., is charged for, as well as every word in the body of the message. In the United States only the words in the body of the message are charged for. Now, there are fourteen words on the average in the address, signature, etc., in a telegram, in addition to the words in the body of the message. So that the European pays for fourteen words in every telegram for which there is no charge in the United States. The following table gives the comparative toll on telegrams of equal length:

	Average Charge for a Domestic or Intrastate Telegram Containing Ten Text Words
France	$ .23
Norway	.32
Sweden	.32
New Zealand	.24
Great Britain	.30
Germany	.28
Italy	.25
Denmark	.32
Austria	.29
United States	.25 to .30

The above table is for intrastate telegrams. While the average rate for interstate telegrams in the United States is higher, yet any comparison of these should be made with international rates in Europe, as the interchange of messages between our different States is similar to the interchange of messages between the different countries in Europe. From Paris to Vienna is about 650 miles, and the cost for a 15-word message, address and signature charged for, is 57.9 cents, as against only 40 cents, address and signature free, for a similar distance in the United States. From Stockholm to Paris (1,000 miles) the rate for a 15-word message, address and signature charged for, is 72.4 cents. From New York to Chicago, about the same distance, the rate for a 10-word message, address and signature free, is 50 cents. Here, again, the American rates are vastly cheaper, notwithstanding the vast disparity between the distances in the United States and in Europe, as is shown by the following table:

	Area in Square Miles	Per Cent of U. S.
United States	3,026,789	100.0
Austria	115,800	3.8
Denmark	14,800	.5
France	207,000	6.8
German Empire	208,800	6.9
Great Britain	121,400	4.0
Italy	110,700	3.7
Norway	124,100	4.1
Sweden	172,900	5.7

The above table shows on its face that in Europe the revenue per mile of wire must be many times greater than in the United States, and hence the proportion of upkeep to revenue is much less in Europe than in the United States. For instance, the average telegram in the United States traverses 570 miles and night letters 1025 miles, while in Belgium the average traverses but 42.5 miles and in Great Britain 150 miles.

There are still other equally important items. The American telegraph companies send messengers to collect and deliver telegrams and maintain call-box systems. The American companies keep open accounts for their customers and keep offices in hotels, apartment houses and competitive offices in all parts of large cities. The European governments do nothing of this kind. There the telegram must be taken to the telegraph office; the sender cannot run up an account; he must prepay, and may have to go a long distance before finding a main or branch office.

Government ownership would not give as quick service nor could it give as low telegraph rates as at present exist without creating still more formidable objections. Government ownership would mean a great annual deficit, if European government telegraphs or the United States Government post office systems are to be considered as precedents. In a speech in the House of Commons on April 30, 1914, Postmaster-General Hobhouse of Great Britain said that within the last forty years the telegraph expenditures of the British Government exceeded the telegraph receipts by $110,000,000, not including interest on the original purchase money nor interest on the annual losses, nor any provision for amortization. If these were included the loss would have been $200,000,000. The annual loss is shown by the following table:

Year Ending March 31	Receipts	Actual Operating Expenses
1908	$15,510,805	$17,542,840
1909	15,492,260	18,361,270
1910	15,827,745	17,993,390
1911	15,830,035	18,478,075
1912	15,747,420	18,786,840
1913	15,881,635	17,620,250
1914	15,591,080	17,545,050
1915	17,094,770	18,570,990

	Operating Loss	Total Annual Loss Including Interest Paid and Fresh Money Expended
1908	$2,026,035	$4,847,425
1909	2,869,010	5,233,785
1910	2,167,645	5,246,065
1911	2,648,040	5,933,365
1912	3,039,420	5,340,740
1913	1,738,615	5,876,735
1914	1,953,970	6,058,710
1915	1,476,220	6,164,775

As late as February 21, 1916, a Committee appointed by the British Government to look into the question of retrenchment in the public expenditure, reported on the Government-owned telegraphs as follows:

> "The history of the Telegraphs is most unsatisfactory. They were taken over in 1870 at a cost (including capital expenditure on extensions) of £10,129,687 [$50,648,435], in the anticipation that they would yield a profit to the State. After the second year of post office management the profit failed to cover interest on the capital outlay. Year by year the financial position has grown worse. In recent years the loss upon working has not been less than £1,000,000 [$5,000,000] a year, and this loss includes nothing for interest due to the State upon the aggregate losses of previous years."

If the British Government had left the telegraphs in the hands of private individuals, the rates would have been just as reasonable as now and the Government would have avoided the loss of not only about $200,000,000, but also the taxes which they would have been receiving from the private companies, and the interest on both of these sums, and the public would have been receiving a much improved service.

We might go on with the same story about nearly every government-owned system in Europe. They are all conducted with financial losses and poor service. Even the Australian Government telegraph system, little as it is, shows a deficit of $757,230 for the eighteen months ending June 30, 1914, according to the official accounts of the Australian Post Office—and we have heard much of the great "success" of government ownership in Australia.

Government ownership cannot compete with private enterprise. The first act of government ownership is to strangle every form of competition; to destroy every instrument by which the efficiency and economy of the government-owned enterprise can be measured.

Governments owning telegraphs tax all the people to make up the deficit due to furnishing telegraph service to a very small proportion of the people, because after all only about 5 per cent of the entire population depend on the telegraph service or use it for more than occasional purposes. With government ownership there always exists agitation on the part of the telegraph-using public for better service and lower rates. Government ownership of the telegraphs would add another large body of office holders to the government service and would create another almost equal body of office seekers. Government servants are well paid and work short hours already, but there

is a movement on foot to force up government employees' salaries by political pressure, obviously for its effect on the wage situation generally. Government salaries are paid out of taxes. Wages must come out of profitable enterprise.

The value to the American public of competition in telegraphy is shown by what the Postal Telegraph-Cable Company has accomplished in the way of reducing telegraph rates. When that company began business in the 80's the telegraph rates were high and the service was bad. The Eastern and Pacific Coasts were twenty-four hours apart. The entry of the Postal Telegraph-Cable Company into the telegraph field as a competitor led at once to a war of rates. The following table, setting forth the rates for a ten-word message before and after the telegraph war, whereby millions of dollars annually have been saved to the people of the United States by the reductions, speaks for itself:

Points Between:—	Monopoly Rate Before the Entry of the Postal	Present Competitive Rate
New York and Arkansas	$1.00	$0.60
" " " California	1.50	1.00
" " " Colorado	1.25	.75
" " " Idaho	1.50	1.00
" " " Kansas	1.00	.60
" " " Louisiana	1.00	.60
" " " Minnesota	1.00	.60
" " " Montana	1.50	.75
" " " Nebraska	1.00	.60
" " " N. Carolina	.75	.50

The Public Service Commissioners, who are in touch with public sentiment throughout the country on these matters, at their convention held in San Francisco, on October 12, 1915, as mentioned above, received from the Committee on Telephone and Telegraph Rates and Service an exhaustive report on this subject of government ownership, including letters and opinions from leading public men throughout the country. The following are their conclusions:

> "When we consider, therefore, how intimately the public welfare is bound up with an adequate development of our wire service, and the deplorable consequences—from the standpoint of extent, quality and cost of service—which have followed attempts of foreign countries to develop their wire systems by direct Governmental agency; when we consider, too, that this unfortunate condition has come about despite an acknowledged superiority in point of administrative efficiency of foreign Governmental machinery over our own; when we consider, finally, that an analysis of the causes underlying the strikingly inadequate character of the wire service abroad, reveals Governmental defects inherent in direct Governmental management, but fortunately absent under a system of Gov-

ernmental regulation, it would seem that, until such time as evidence to the contrary is adduced of a more conclusive character than that presented by the Postmaster-General and his assistants, it is preferable that the Government in this country continue its policy of dealing with electrical systems of communication by regulation."

Then there is another thing. It would cost the Government about two billion dollars to take over the telegraph and telephone lines. In fact, it might cost the Government a great deal more, because under the decisions of the United States the earning capacity of these vast properties would have to be paid for. The Supreme Court of the United States in the Monongahela Canal case, where the United States Government condemned a lock and dam, said (148 U. S. 329):

> "Before this property can be taken away from its owners the whole value must be paid; and that value depends largely upon the productiveness of the property, the franchise to take tolls."

The same question was decided by the Supreme Court in the Omaha Water Works case, where the court held that even though the city in its original franchise had reserved the right to take the water works "at an appraised valuation * * * Provided, that nothing shall be paid for the unexpired franchise of said company," yet as the court said (218 U. S. 202):

> "The option to purchase excluded any value on account of unexpired franchise; but it did not limit the value to the bare bones of the plant, its physical properties, such as its lands, its machinery, its water pipes or settling reservoirs, nor to what it would take to reproduce each of its physical features. The value in equity and justice must include whatever is contributed by the fact of the connection of the items making a complete and operating plant. The difference between a dead plant and a live one is a real value, and is independent of any franchise to go on, or any mere good will as between such a plant and its customers."

Nor is this all. The Government would have to deal with telegraph lines on the railroads. Most of those telegraph lines have been constructed jointly by the telegraph companies and the railway companies, under contracts which give the railroad companies substantial rights in those telegraph lines, the usual contract being that the telegraph company furnished the poles, wires, cross-arms and other material, while the railroad company furnished the labor to erect and maintain the lines. The courts hold that this makes those telegraph lines joint property of the telegraph company and the railroad company. To the great surprise of the British Government after taking over the tele-

graph lines from the telegraph companies, large claims were put in by the railroad companies for their contract rights in the telegraph lines built on the railroad right of way under contracts very similar to the American contracts mentioned above. The British Government finally had to pay to the railroads the appraised value of those contracts—and it was a very large sum. The American Government could not acquire title to the telegraph lines in the United States without paying a large sum of money to the railroad companies in addition to buying out the telegraph companies. Railroad-telegraph contracts have proven to be exceedingly valuable to the railroads and, at the same time, have proven to be a source of very great loss to the telegraph companies. The old-fashioned railroad-telegraph contract has turned out to be an improvident contract so far as the telegraph companies are concerned. So improvident, in fact, have they proven to be that the Postal Telegraph-Cable Company has refused for several years past to make any more on the old terms. As fast as the few which it has expire, by their own terms, they will not be renewed. A careful analysis of the workings of those contracts has demonstrated that the telegraph company suffers great losses under them. The contract which the Postal Telegraph Company at present has with the Pennsylvania Railroad east of Pittsburgh shows a loss to the telegraph company of over one hundred thousand dollars a year for the past fifteen years during which the contract has been in existence. Fortunately for the Postal Telegraph Company, that contract expires in June of this present year, and, of course, will not be renewed. In another contract which the Postal Telegraph-Cable Company has with a large railroad system, the railroad company by the terms of the contract has its station agents attend to the telegraph business at the stations and the railroad pays the station agent's wages for all of his work, this being the usual provision in the railroad-telegraph contracts. During the past few years, however, the station agents, on account of the Postal Telegraph-Cable Company refusing to pay them a commission, have neglected the transmission of telegrams, and at times have refused to accept them at all, resulting in suits for damages being brought against the Postal Company. Fortunately the Postal Telegraph Company has very few of these railroad-telegraph contracts and has none at all in perpetuity.

All this shows that if the Government should acquire all of the telegraph lines in the United States it would be assuming an indefinite liability in connection with these railroad-telegraph contracts, and judg-

ing from the experience of the British Government that indefinite liability would be the source of an immense additional cost in acquiring the telegraph lines.

The above facts and figures would seem to demonstrate that there is no reason why at present the Government should acquire the telegraph lines. So long as the Postal Telegraph-Cable Company keeps up present competition, the public will continue to get better service at cheaper rates than under a Government monopoly, unless, of course, the Government after acquiring the telegraph lines should arbitrarily reduce the rates and make up the deficit by taxation. No one could justify that in view of the fact that so small a proportion of the public send telegrams, except at rare intervals in case of death in the family or travel.

As to the Government acquiring the submarine cable lines, we cannot see how this could be accomplished nor that it would be of any advantage to the United States Government, its business public and its citizens. It should be understood that there is only one cable running direct from the United States to Europe, and for sufficient economic reasons of cost, efficiency and maintenance there is not likely to be another. It is the cable of the French Cable Company (a foreign corporation), running from Cape Cod, Mass., to Brest, France, a distance of 3,176 miles. All the rest of the cables from the United States form only parts of the trans-Atlantic cable systems. They run from points in the United States to points in Nova Scotia, or Cape Breton, or Newfoundland, the French island of St. Pierre, or the Portuguese Azores, and thence traverse the Atlantic to Great Britain, France and Germany. Hence, the most vital sections of the cables, namely, the Atlantic Ocean portions, are completely under the jurisdiction of the British or French or Portuguese Governments, as the case may be. None of those governments would permit the United States Government to own such portions of the cables as land on the territory of such foreign governments, just as the United States Government would not permit a foreign government to own the American Pacific Cable landing at American points. It is true that certain cables connecting Great Britain with Continental Europe are owned jointly by the British and Continental countries where they land, but in such cases the cable is under the control of each government, because either end of a cable can prevent the cable from being operated and either government can suspend the operation at will. In the Atlantic, however, the United States Government could acquire only one end of the

cable lines from the United States to Canada, and hence the most essential part of the control would remain in the hands of the British, French and Portuguese Governments, namely, the mastery of cable communication between Canada or the Azores and Europe. This might be a prolific source of international complications. We do not believe that the American Government would care to embark on any such adventurous expedition. All governments will allow a foreign corporation to make landings on their shores because foreign corporations may be controlled by the governments on whose soil the landings are made, without disturbing the relations between the two governments. It would seem, therefore, that instead of raising questions as to government ownership of cable facilities, the United States Government should be guided by the example set by British, French and German Governments in fostering the development of private cable enterprises. In fact, although both the French and German Governments own their own land telegraph systems, yet both of those governments have recognized the impossibility and impracticability of owning trans-Atlantic cable systems, and accordingly have assisted in developing private enterprises for that purpose, not only between those countries and the United States, but also between those countries and Africa and South America.

The situation is peculiar as to competition in telegraph and cables in this country. That seems to be about the only kind of quasi-public business that still has competition. Railroads have very little, and that little is fast disappearing. Street railroads naturally have none. The telephone is rapidly becoming a monopoly. As to electric light companies, gas companies, water works companies and power companies, competition is almost a thing of the past. In fact, public policy is rapidly favoring monopoly as to those companies. The highest court in New York only a short time ago said (207 N. Y. 98, 99):

> "It is the settled policy of the State, arising through an extended and instructive experience, to withdraw the unrestricted right of competition between corporations occupying, through special consents or franchises, the public streets and places and supplying the public with their products or utilities which are well-nigh necessities."

Other States and State commissions have adopted the same policy; and undoubtedly it is the correct policy. With telegraph lines, however, the case is different, and we believe that if at any time competition in the telegraph business should cease, the public would insist at once that the Government take over the telegraph lines. There would be no possibility of another competing telegraph company arising. There

would be no room for such. Already the through highways of this country—particularly in the East and Northeast—are fully occupied by pole lines of various kinds. Moreover, the cities throughout the country would not allow their streets to be torn up again from end to end. Even if they did, the cost would be prohibitive in view of the narrow margin of profit in the telegraph business. There will never be another telegraph company spreading over the entire country—and no telegraph line can succeed unless it does cover the whole of the United States. This is the history of the telegraph. Certain railroad corporations, disappointed at not being able to renew old contracts with the Western Union Telegraph Company, have threatened to organize a telegraph company of their own. They will find, however, that while they can construct telegraph lines on their own railroads, they cannot hope to cover the whole country, and when it comes to dividing a telegraph toll between two companies the present small margin of profit would disappear, and there would be a loss to both companies. Hence we say that the Postal Telegraph Company is and will be the last competing company in the telegraph business, and if its independent ownership, management and control should cease and it should pass into other hands, that would be the end of competition in telegraphy, and government ownership of telegraph lines would quickly follow. So long, however, as competition continues, there is no occasion for government ownership.

Respectfully submitted.

POSTAL TELEGRAPH-CABLE COMPANY AND
THE COMMERCIAL CABLE COMPANY,
By CLARENCE H. MACKAY,
President.

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